

Message Text

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ACTION ARA-10

INFO OCT-01 ISO-00 SP-02 AID-05 EB-07 NSC-05 CIEP-02

TRSE-00 SS-15 STR-04 OMB-01 CEA-01 COME-00 AGR-10

CIAE-00 FRB-01 INR-07 NSAE-00 USIA-15 XMB-04 OPIC-06

LAB-04 SIL-01 L-02 H-02 PRS-01 PA-02 /108 W

----- 094695

R 191530Z MAY 75

FM AMEMBASSY BRASILIA

TO SECSTATE WASHDC 9295

INFO AMCONSUL RIO DE JANEIRO

AMCONSUL SAO PAULO

AMEMBASSY SANTO DOMINGO

UNCLAS BRASILIA 3910

PASS TREASURY DEPARTMENT

SANTO DOMINGO PASS DE FALCO IDB DELEGATION

E.O. 11652: N/A

TAGS: EFIN, BR

SUBJECT: BRAZIL PERMITS FOREIGN CAPITAL INTO CAPITAL MARKET; REACTION
OF FINANCIAL COMMUNITY

REF: BRASILIA 3909

1. SUMMARY: COMMENT IN RIO FINANCIAL COMMUNITY ON GOVERN-
MENT'S MEASURE TO OPEN BRAZILIAN EQUITY MARKET GENERALLY
FAVORABLE BUT SOME OF THE DIFFERENCES FROM EARLIER
DRAFTS ARE BELIEVED TO DETRACT FROM MEASURE
IN ATTRACTING FOREIGN FUNDS. A NUMBER OF BANKING FIRMS
WERE REPORTED TO BE MOVING PROMPTLY TO QUALIFY UNDER
THE MEASURE. END SUMMARY.

2. SUPPLEMENTING REFTEL, ECONOMIC COMMERCIAL SECTION RIO
HAS CANVASSED REACTION OF RIO FINANCIAL COMMUNITY AND
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REPORTS AS FOLLOWS:

A. RIO FINANCIAL COMMUNITY WAS GENERALLY PLEASED BY THE NEW REGULATION ON ENTRANCE OF FOREIGN CAPITAL INTO THE BRAZILIAN STOCK MARKET. SINCE THE LEGISLATION HAD BEEN LONG WAITED THE DECISION ITSELF DID NOT AROUSE MUCH EXCITEMENT. HOWEVER, THE LEGISLATION AS ENACTED WAS SOMEWHAT DIFFERENT FROM THE EARLIER DRAFTS THAT HAD BEEN CIRCULATED WITHIN THE FINANCIAL COMMUNITY. THESE DIFFERENCES, BOTH FAVORABLE AND UNFAVORABLE FROM THE VIEWPOINT OF FOREIGN INVESTORS, ARE WHAT MUCH OF THE ATTENTION IS BEING FOCUSED ON.

B. THE FIRST QUESTION ASKED BY OBSERVERS IS NATURALLY HOW MUCH MONEY IS WAITING TO COME INTO BRAZIL. NO ONE REALLY KNOWS BUT FOREIGN BANKING SOURCES FEEL THAT THE LOWER END OF THE \$150 - 300 MILLION RANGE MENTIONED IN THE PRESS AND ATTRIBUTED TO GOB OFFICIALS IS PROBABLY AS GOOS A GUESS AS ANY. WHETHER THIS WILL HOLD TRUE FOR COMING YEARS IS A FUNCTION BOTH OF THE CONDITION OF WORLD CAPITAL MARKETS AND INVESTORS' PERCEPTION OF THE PROSPECTS FOR THE BRAZILIAN MARKET.

C. ONE CHANGE OVER WHAT HAD BEEN EXPECTED IN THE LEGISLATION INVOLVED THE REQUIREMENT THAT AT LEAST HALF THE ASSETS OF EACH FUND BE PLACED IN SHARES OF PRIVATELY OWNED BRAZILIAN COMPANIES. IT HAD BEEN EXPECTED THAT A 50 PERCENT SHARE REQUIREMENT WOULD BE IMPOSED BUT THE SPECIFICATION OF PRIVATE COMPANIES WAS SOMEWHAT OF A SURPRISE. WHILE THE OTHER HALF OF THE ASSETS CAN BE INVESTED IN PUBLIC COMPANIES SUCH AS CVRD (BUT NOT BANK OF BRAZIL), THE 50 PERCENT REQUIREMENT WILL MAKE IT DIFFICULT TO CONCENTRATE ASSETS IN FIRST CLASS PRIVATE BRAZILIAN COMPANIES. IN THE VIEW OF THE FINANCIAL COMMUNITY THERE ARE NOT THAT MANY FIRST-CLASS COMPANIES.

D. THE OTHER CHANGE OVER THE DRAFT LEGISLATION THAT ATTRACTED ATTENTION WAS THE LIMITATION ON PLACING FUNDS IN FIXED-INCOME (I.E., WITH MONETARY CORRECTION) SECURITIES, WITH THE EXCEPTION OF ORTN. WHEN THE DRAFT PROPOSAL WAS CIRCULATED SEVERAL MONTHS AGO, MARKET

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"SHARPIES" QUICKLY SAW THAT CONCENTRATING FUNDS IN FIXED INCOME PAPER COULD BE HIGHLY ATTRACTIVE TO FOREIGN INVESTORS. THE FINAL LEGISLATION RULES THIS STRATEGY OUT. THIS MAY, OF COURSE, HAVE BEEN PRECISELY THE OBJECTIVE OF THE GOVERNMENT AUTHORITIES WHO WERE TRYING TO BOLSTER THE SHARE AND DEBENTURE MARKET AND NOT THE TETRAS DE CAMBIO, ETC.

E. FINALLY, THE TAXATION AFFORDED THE INVESTMENT SOCIETIES IS CONSIDERED ATTRACTIVE BY FOREIGN BANKERS. THE RELATIVELY LOW WITHHOLDING TAX, PARTICULARLY AS COMPARED TO OTHER REMITTANCES, RECEIVES MUCH OF THIS ATTENTION. THE LIMITATIONS ON REPATRIATION ARE NOT CONSIDERED TOO STRICT, BEING ABOUT WHAT HAD BEEN EXPECTED FROM THE BEGINNING.

3. JORNAL DO BRASIL, ON MAY 15, REPORTED THAT SOME TEN MAJOR FINANCIAL INSTITUTIONS ARE ALREADY IN A POSITION TO REGISTER THEIR OWN INVESTMENT SOCIETIES, INCLUDING CITY BANK, LAR BRASILEIRO, BANK OF BOSTON, AND BRSCAN; THREE BRAZILIAN INVESTMENT BANKS -- BIB, BOZZANO AND FINASA; AND FOUR BROKERAGE FIRMS - NEY CARVALHO, PEBB, GARANTIA AND OMEGA. ACCORDING TO THE DIRECTOR OF THE CAPITAL MARKETS DIVISION OF THE CENTRAL BANK, IT WILL TAKE ABOUT TEN DAYS FOR THE TECHNICIANS OF THE OFFICE TO PROCESS THE REGISTRATION REQUESTS AND PREPARE THE NECESSARY DOCUMENTATION.

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